

**CITY OF MARYSVILLE**  
**Snohomish County, Washington**  
**January 1, 1992 Through December 31, 1992**

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**Schedule Of Findings**

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1. City Officials Should Improve Internal Accounting Controls Over Fixed Assets

Our review of the city's fixed assets revealed the following weaknesses in internal controls:

- a. The city does not maintain detail asset ledgers for the general fixed asset account group or the enterprise funds.
- b. Nonexpendable personal property purchased with federal funds has not been identified to ensure compliance with federal regulations relating to the use and disposal of such items.
- c. City officials do not take physical inventory of the city assets on a regular basis.

As a result of the absence of fixed asset ledgers, we were unable to apply audit procedures to verify the validity of fixed asset balances. Consequently, we consider this condition to be a material weakness in internal control for financial reporting purposes.

These same weaknesses in controls over fixed assets have been the subject of findings in our 1988, 1989, 1990, and 1991 audit reports (Nos. 52352, 53167, 53774 and 54710).

We again recommend that city officials improve control over fixed assets. We specifically recommend they:

- a. Establish and maintain detailed fixed asset subsidiary ledgers. All additions and retirements of fixed assets should be recorded in these ledgers as they occur. These ledgers should be reconciled to the general ledger control accounts in a timely manner.
- b. Maintain property records which identify nonexpendable property purchased with federal funds.
- c. Perform a comprehensive annual physical inventory of fixed assets, including land, buildings and improvements, and equipment. Any differences between the physical inventory, the fixed assets subsidiary ledgers, and the general ledger accounts should be resolved.

2. The City Should Not Make Payment To Contractors In Excess Of Contract Limitations

During our previous audit, we reviewed the city's payments to a project engineer who performed work under contract on the city's water pipeline project. We determined the city had paid this consultant in excess of contract limits by \$33,869 through July 1992. During the current audit, we determined that the city continued to pay this consultant without a contract amendment, resulting in payments of \$55,126 in excess of the contract limit by December 31, 1992.

All indications are that the city received value for the payments made. However, we are concerned about the apparent lapse in legal and administrative controls which allowed payments to be made in excess of the contracted dollar amount.

It appears that the excess payment occurred because the city has not adopted policies and procedures to govern the administration of construction and consulting contracts. We made recommendations for the city to adopt such policies and procedures in our 1991 audit report (No. 54710).

We again recommend that city officials adopt policies and procedures to govern the administration of construction and consulting contracts. Such policies should include:

- a. City council approval of contract change orders above certain values established by the council.
- b. Procedures to prevent payment to contractors in excess of contract values.

3. The City Should Comply With Revenue Bond Covenants

The revenue bonds outstanding carry with them a requirement that the city earn enough net revenue from the water/sewer utility to cover debt service. The specific requirement being either 1.35 or 1.4 times the average annual debt service, depending on the bond issue. For 1992 the city did not earn enough net revenue to meet the coverage requirements of these outstanding bond issues, resulting in a shortfall of \$795,891.

The following bond ordinances contain this covenant requiring the city to collect enough net revenue to cover either 1.35 or 1.4 times the average annual debt service:

- Ordinance 543 - 1965 Revenue Bonds (1.4)
- Ordinance 595 - 1967 Revenue Bonds (1.4)
- Ordinance 654 - 1969 Revenue Bonds (1.4)
- Ordinance 972 - 1977 Revenue Bonds (1.35)
- Ordinance 1839 - 1985 Revenue Bonds (1.35)
- Ordinance 1459 - 1986 Revenue Bonds (1.35)
- Ordinance 1578 - 1987 Revenue Bonds (1.35)
- Ordinance 1839 - 1991 Revenue Bonds (1.35)
- Ordinance 1911 - 1992 Revenue Bonds (1.35)

Net revenue of the utility system is consistently defined in these ordinance as the collection of charges, less expenses for operations, maintenance, and taxes.

The city needs to collect sufficient revenues from the utility to assure bond holders of their ability to make debt service payments.

We recommend the city's water/sewer utility collect no less than the required net revenue to comply with these bond covenants.